



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Adopt resolution authorizing the City Manager, or his designee, to approve advance procurement of energy (up to 95% of the Electric Utility's net open position) through Northern California Power Agency (estimated at \$11.3 million pursuant to pricing on 9/13/2005) (EUD)

MEETING DATE: October 5, 2005

PREPARED BY: Interim Electric Utility Director

RECOMMENDED ACTION: That the City Council authorize the City Manager, or his designee, to approve the advance purchase of energy (up to 95% of Lodi Electric's net open position) through the Northern California Power Agency where such energy is forecast to be needed to supply Lodi Electric's obligations to its customers.

BACKGROUND INFORMATION: The City of Lodi contracted for the services of an interim electric utility director effective September 6, 2005. As part of the interim electric utility director's review of electric utility operations, it was determined that Lodi Electric Utility had not fully procured, on an advance basis, all of the energy that is forecast to be required to meet load serving obligations through the end of the fiscal year. This is referred to as having a net open position in the electric markets. There are no mandatory requirements that a utility fully procure all energy that it expects to need for the year on an advance basis. In fact, some utilities leave a portion of their energy needs open as part of a strategic procurement plan that balances the utility's ability to absorb the costs associated with rising forward energy prices against that same utility's view of prices in the future.

The attached spreadsheet contains the detail of current sources of supply and net open position in each month through the end of the fiscal year. The spreadsheet is divided into three sections. The first section provides a summary of the total energy needs of the city during the High Load Hours (HLH) and Low Load Hours (LLH). The next two sections itemize the owned resources and or contracts that would be utilized to fulfill the load serving obligation to the community within those two periods with any differences between the load forecast and supply sources representing a surplus or a deficit. As can be seen in the attached worksheet, deficits range between 5% for the month of September to 59% for the month of November, and approximately 27% on average.

Issue: Procuring Lodi's net open position at current commodity prices may require a budget adjustment and Market Rate Adjustment to electric rates. Procurement of this net open position is occurring at a time in which energy prices have risen over 30% since the beginning of the fiscal year and are continuing to rise. Based on forecasts of procurement costs in September, the costs to procure the total open position is estimated at \$11.3 million, which would cause total estimated bulk power procurement costs to exceed budget estimates by approximately \$700,000. Procurement of the net open position at this time will result in procurement of energy at prices which are arguably very high by historical standards and could deprive the city of the opportunity of procuring needed energy in the future at a lower price. As a

APPROVED:

A handwritten signature in black ink, appearing to read "Blair King", written over a horizontal line.


Blair King, City Manager

counterpoint, procurement of the net open position at this time will provide certainty of power supply costs through the end of the fiscal year and protect the city against further increases in power supply costs. To put this difficult decision into perspective through a simple example, if one were to assume that prices for electricity were to increase or decrease evenly for each month's need between today and the time the energy is needed by Lodi's customers, the estimated advance procurement costs of \$11.3 million at today's prices would decrease to \$7.9 million if prices were to decrease evenly by 30% or increase to \$14.7 million if prices were to increase evenly by 30%.

FISCAL IMPACT: Bulk power required to serve Lodi electric customers must be procured through the spot markets on the day needed or in advance through ownership in plants or contract mechanisms. The actual costs of procuring the bulk power required will be assessed to Lodi Electric Utility regardless of whether the bulk power is procured in advance or later in the spot markets. Lodi Electric Utility must therefore either be prepared to pay for the costs of the bulk power required to serve its customers, adjusting its rates if necessary, or alternatively, to curtail service to customers.

FUNDING: Funding for this purchase will come from the Lodi Electric Utility account 160642 for Bulk Power Purchases. As Council is aware, the current Electric Utility budget was adopted with an imbalance between revenues and expenses. Specifically, revenues were adopted at \$56.7 million and expenses at \$65 million resulting in a shortfall of \$8.3 million in the current fiscal year. Staff expects to make additional presentations to the City Council to address these revenue and expense imbalances, which will be further informed by the actual procurement costs incurred in filling the net open position, and adjust rates as necessary, as part of additional presentations to the City Council in October and November.


James R. Krueger, Finance Director


David Dockham
Interim Electric Utility Director

DD/lst

Attachments (1)

cc: City Attorney

FY 2006

	FY 06												
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Load Forecast													
HLH Forecast	30,520	33,982	27,695	24,117	23,160	24,564	24,182	22,006	24,023	23,423	25,841	29,134	312,647
LLH Forecast	18,419	16,559	15,790	13,558	13,391	13,083	13,466	11,908	12,678	13,653	13,969	14,845	171,319
Total	48,939	50,541	43,485	37,675	36,551	37,647	37,648	33,914	36,701	37,076	39,810	43,979	483,966
HLH Resources	Hours in Month >	400	416	400	416	400	384	432	400	416	416	4,080	
Geo		5,325	5,637	5,040	5,501	5,618	5,123	4,565	5,518	5,501	5,325	53,153	
Calaveras		3,347	2,029	1,777	2,226	2,849	4,348	6,872	7,064	7,901	5,556	43,969	
CT#1		0	0	0	0	0	0	0	0	0	0	0	
Stig		7,900	0	0	0	0	0	0	0	0	0	7,900	
Exchange		7,260	3,630	(5,500)	(8,288)	(7,917)	(7,600)	(8,550)	(1,938)	0	7,260	(21,643)	
Western		912	482	303	126	157	456	699	882	1,591	1,413	7,021	
Contract #1		2,000	2,080	2,000	2,080	2,000	1,920	2,160	2,000	2,080	2,080	20,400	
Contract #2		2,000	2,080	2,000	4,160	2,000	1,920	2,160	0	2,080	0	18,400	
Contract #3		2,000	2,080	2,000	4,160	4,000	3,840	2,160	2,000	2,080	2,080	26,400	
Subtotal		30,744	18,018	7,620	9,965	8,707	10,007	10,066	15,526	21,233	23,714	155,600	
HLH Surplus/(Deficit)		3,049	(6,099)	(15,540)	(14,599)	(15,475)	(11,999)	(13,957)	(7,897)	(4,608)	(5,420)	(92,545)	
%Surplus/(Deficit)		11%	-25%	-67%	-59%	-64%	-55%	-58%	-34%	-18%	-19%	-30%	
LLH Resources	Hours in Month >	320	329	320	320	344	288	312	319	328	304	3,184	
Geo		4,184	4,082	4,469	4,322	4,414	3,864	3,586	3,678	4,322	4,184	41,105	
Calaveras		638	606	561	557	543	954	1,509	2,355	2,753	1,755	12,231	
CT#1		0	0	0	0	0	0	0	0	0	0	0	
Stig		0	0	0	0	0	0	0	0	0	0	0	
Exchange		1,281	641	(1,833)	(1,463)	(750)	(750)	(600)	(123)	0	1,281	(2,316)	
Western		608	303	202	71	88	280	429	541	914	801	4,237	
Contract #1		2,000	2,080	2,000	2,080	2,000	1,920	2,160	2,000	2,080	2,080	20,400	
Contract #2		2,000	2,080	2,000	2,080	2,000	1,920	2,160	2,000	2,080	2,080	20,400	
Subtotal		10,711	9,792	7,399	7,647	8,295	8,188	9,244	10,451	12,149	12,181	96,057	
LLH Surplus/Deficit		(5,079)	(3,766)	(5,992)	(5,436)	(5,171)	(3,720)	(3,434)	(3,202)	(1,820)	(2,664)	(40,284)	
% Surplus/(Deficit)		-32%	-28%	-45%	-42%	-38%	-31%	-27%	-23%	-13%	-18%	-24%	
Total Surplus/(Deficit)			(2,030)	(9,865)	(21,532)	(20,035)	(20,646)	(15,719)	(17,391)	(11,099)	(6,428)	(8,084)	(132,829)
Total Surplus/(Deficit) %			-5%	-26%	-59%	-53%	-55%	-46%	-47%	-30%	-16%	-18%	-27%

RESOLUTION NO. 2005-219

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING
THE CITY MANAGER, OR HIS DESIGNEE, TO APPROVE
ADVANCE PROCUREMENT OF ENERGY (UP TO 95% OF THE
ELECTRIC UTILITY'S NET OPEN POSITION) THROUGH
NORTHERN CALIFORNIA POWER AGENCY

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NOW, THEREFORE, BE IT RESOLVED that the Lodi City Council does hereby authorize the City Manager, or his designee, to purchase energy (up to 95% of Lodi Electric Utility's net open position for the balance of the 2005-06 fiscal year) at the best price available on the market October 6, 2005, through the Northern California Power Agency.

Dated: October 5, 2005

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I hereby certify that Resolution No. 2005-219 was passed and adopted by the City Council of the City of Lodi in a regular meeting held October 5, 2005, by the following vote:

AYES: COUNCIL MEMBERS – Hansen, Johnson, Mounce, and
Mayor Beckman

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – Hitchcock

ABSTAIN: COUNCIL MEMBERS – None



SUSAN J. BLACKSTON
City Clerk



Energy Purchase Request

Recommended Action:

“That the City Council authorize the City Manager or his designee to approve the advance purchase of energy (up to 95% of Lodi Electric’s net open position) through the Northern California Power Agency, where such energy is forecast to be needed to supply Lodi Electric’s load serving obligation.”



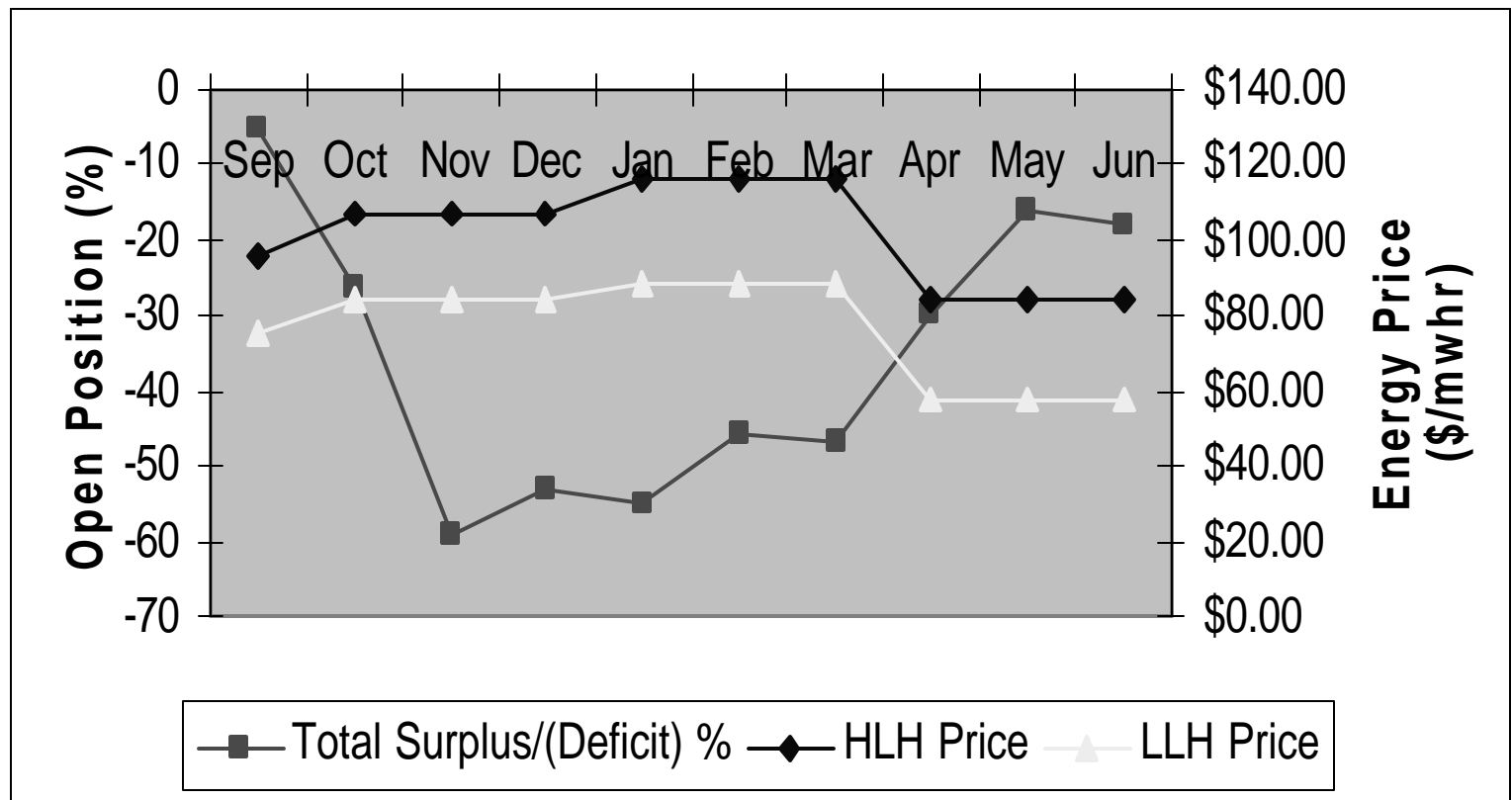


Issue – High Prices

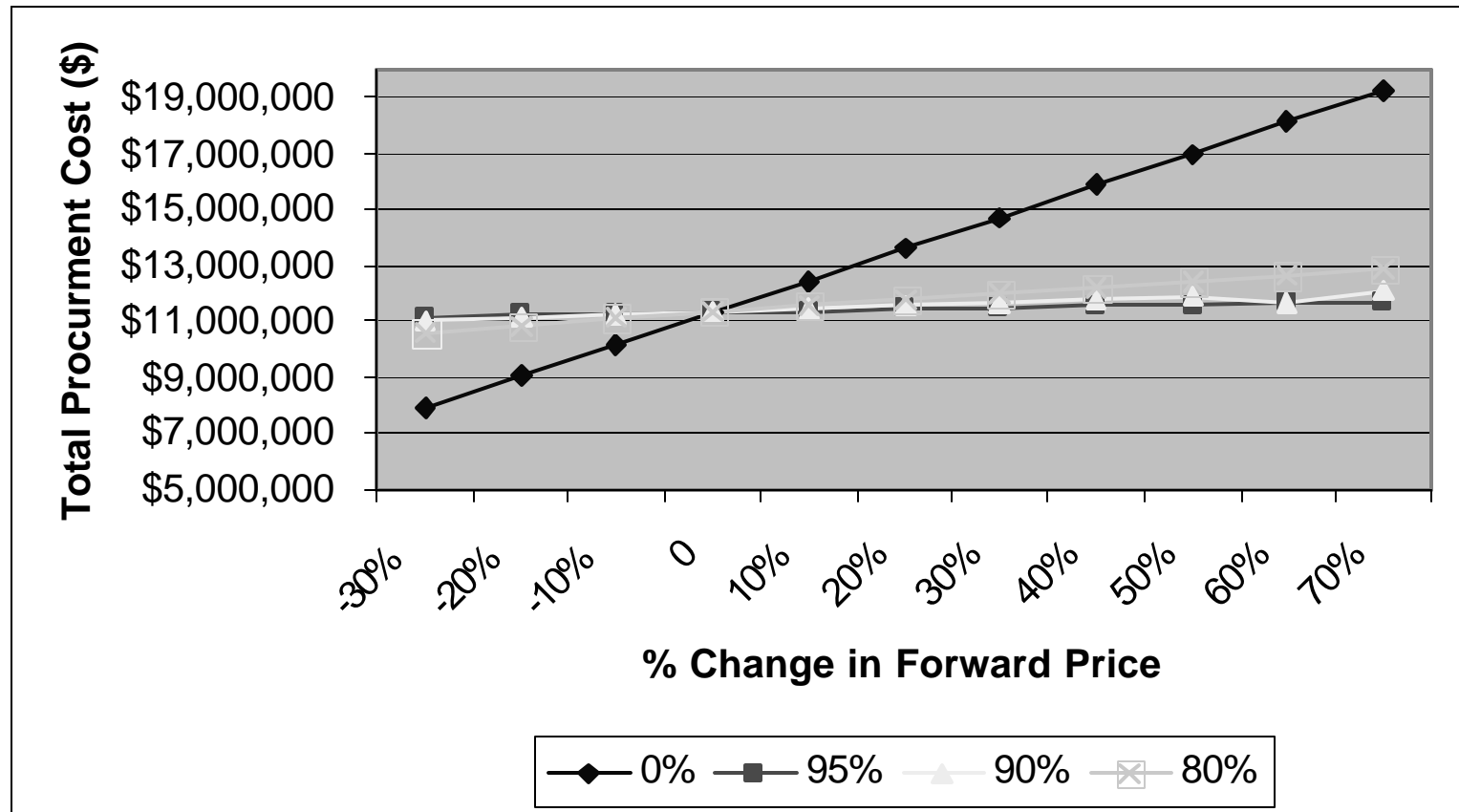
- Hurricanes damaged gas supply infrastructure
 - Uncertainty in return to production
 - Diminished injection for future use
 - Projections of additional storms
- Competing requests for supply offers driving up prices
 - SCE
 - PG&E
 - APS



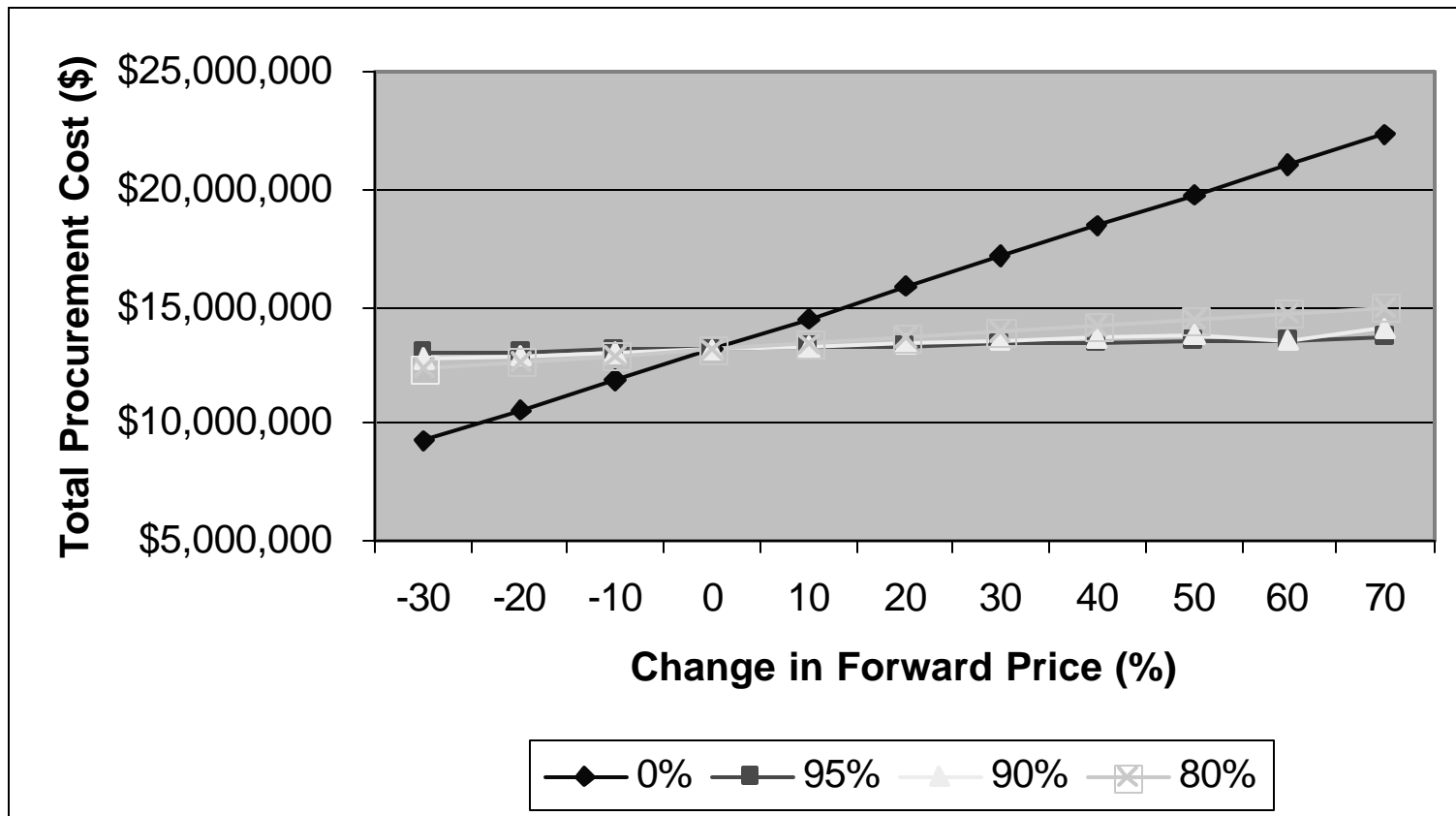
Price vs. Short Position



Open Position Sensitivity to Price Changes (9/12/2005)

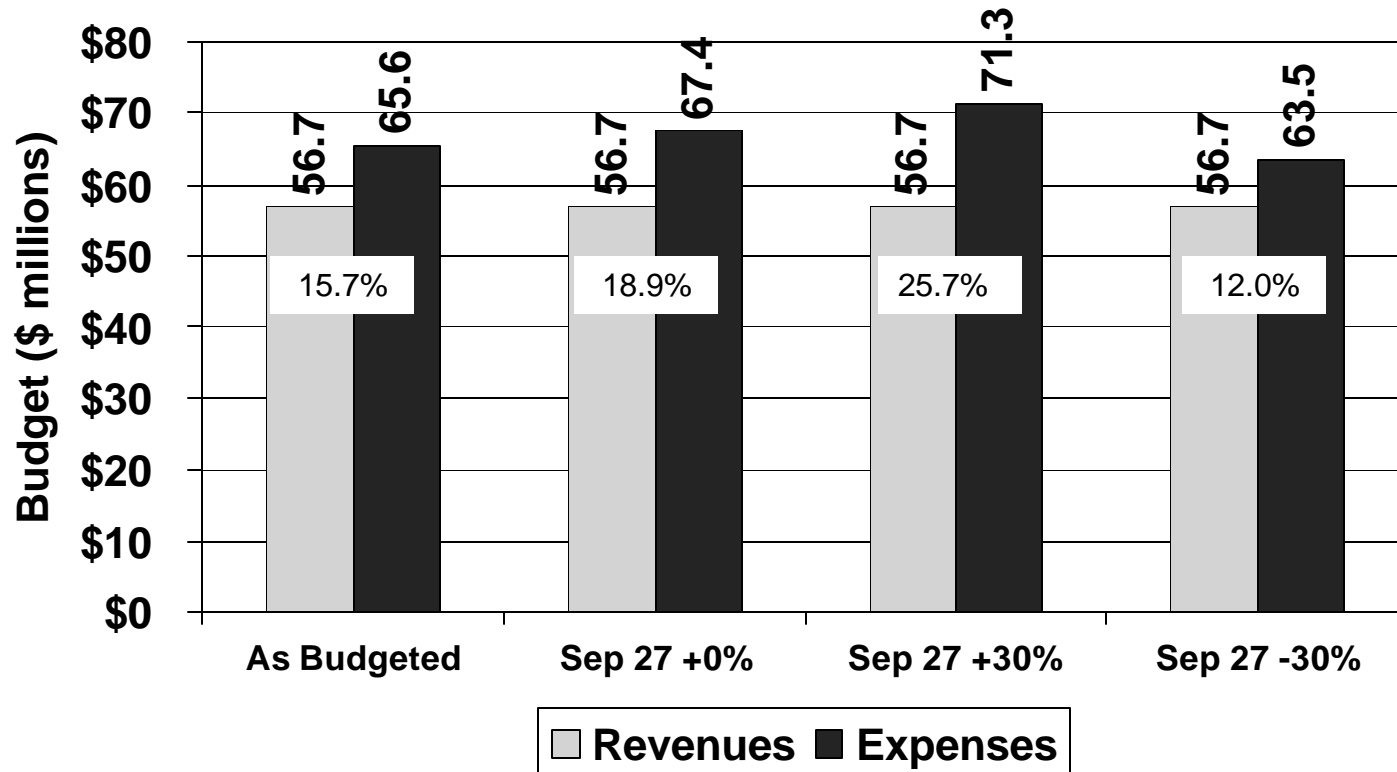


Open Position Sensitivity to Price Changes (9/27/2005)





Budget Impacts of Changing Market Prices





Proposed Next Steps

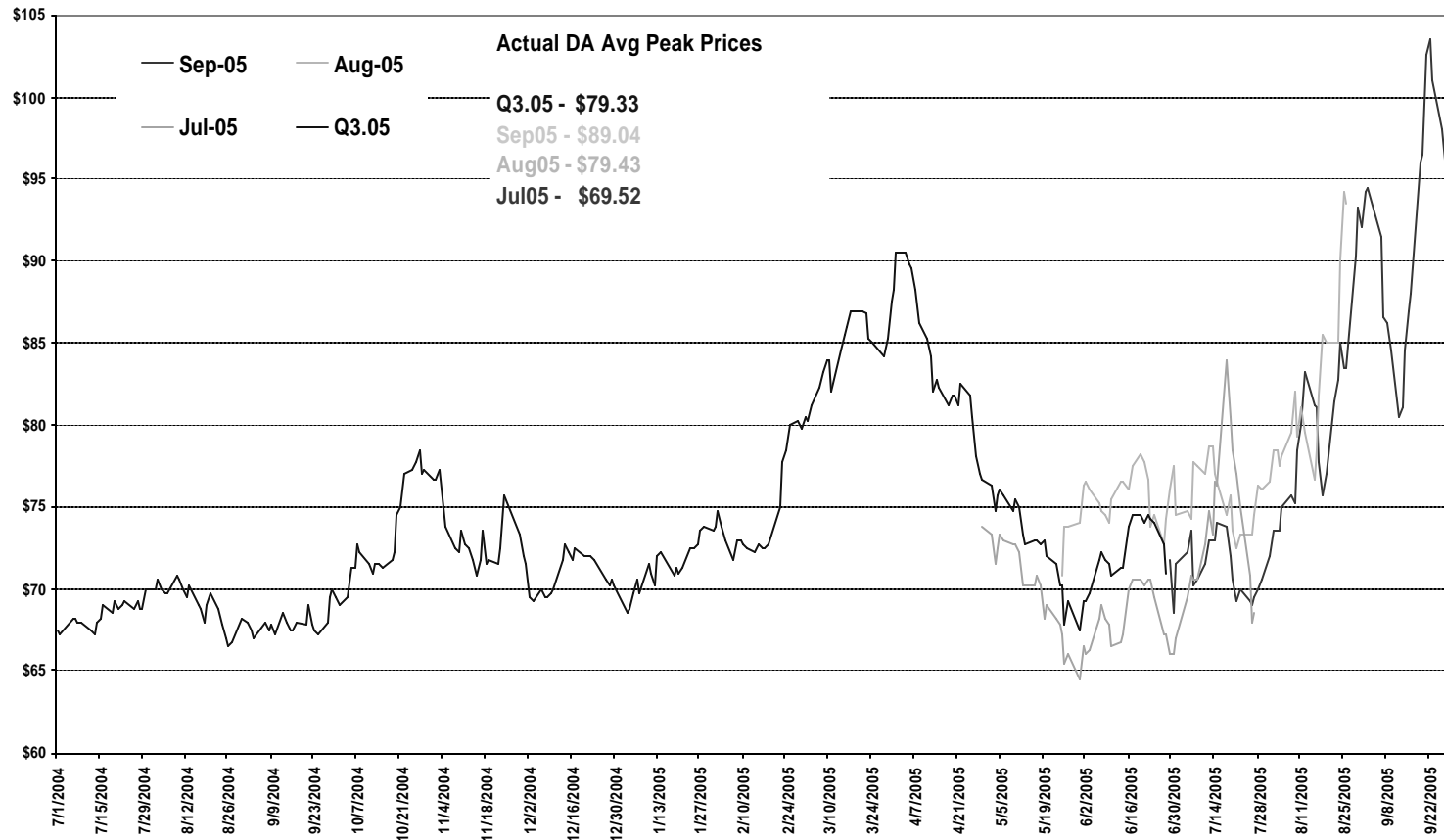
- Oct 5th – Request approval to procure net short position
- Oct 6th – Review supply offers/make purchase
- Oct 18th – Shirtsleeve presentation on Electric Department operations and budget
- Oct 19th – Recommend Market Cost Adjustments to Council
- Nov 15th – Rate “true up” presentation to Council



Questions/Discussion



Comparison of Forward Peak Prices vs Actual Peak Prices



K-4

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10-6-05

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Dear City Council Member,

I am a concerned citizen. Newly relocating from Stockton, I am thoroughly disappointed in the city's capacity to manage their resources (water, electricity). Perhaps it is the Wednesday's issue of the Stockton Record who says it best. Maybe you can explain how something of this caliber occurs. Did the city planner forget to take into account the rapid growth and development of the city? First it was the increase in water, and now the hike in electricity. It seems to me that responsible, tax-paying citizens such as myself are being left to take the brunt for someone's elementary mistakes in city management. Whatever the case, it would occur to me that this type of fiscal irresponsibility can not be tolerated by new homeowners, people on fixed incomes, and those who are of lower socioeconomic status. I am awaiting a response to a solution of this issue.

Kristen Hodge

X	CC	HR	
X	CM	IS	
X	CA	LIB	
	CD	PR	
X	EUD	PD	
	FIN	X	PW
	FD		COM